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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of:

Simplification of the
Depreciation Prescription Process

CC Docket No. 92-296

**PETITION FOR RECONSIDERATION
OF THE
UNITED STATES TELEPHONE ASSOCIATION**

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SUMMARY

The United States Telephone Association (USTA) supports the Commission's objectives of simplification and reducing administrative costs for carriers and the Commission. The Commission should reconsider its Report and Order and adopt the Price Cap Carrier option. This option remains the option that can best merge depreciation policy with the Commission's other regulatory policies, and the option that will best achieve the stated purposes of this proceeding.

If the Commission retains its current decision to implement the Basic Factors Range approach, USTA seeks reconsideration and clarification on a number of points to assure that it will deliver the maximum public benefit that can be made available through it. As USTA stated in the rulemaking, the benefits of this approach will depend heavily on the ranges adopted and the accounts that are covered. In addition, the benefits will depend on how the Commission addresses a number of details not covered fully by the Report and Order, and how soon it acts.

Finally, carriers who elect Optional Incentive Regulation as adopted earlier this year in CC Docket 92-135 should be able to utilize the simplification option eventually adopted here. These carriers also are in an incentive-based regulatory framework that divorces earnings from investment. Their depreciation, like that of the price cap carriers, is endogenous for ratemaking purposes. They should have the control over depreciation that status anticipates. The Commission also should reconsider use of the

rules and policies adopted here for rate of return carriers.
Benchmarking and comparisons can be used efficiently for these
companies, too.

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The United States Telephone Association (USTA) respectfully submits this Petition for Reconsideration of the Report and Order in this proceeding, released October 20, 1993. A summary of the Report and Order appeared at 58 Fed. Reg. 58788 on November 4, 1993.

In the Report and Order, the Commission adopted rules designed to simplify and streamline the prescription of interstate depreciation rates. It adopted an option, called the Basic Factors Range option, to achieve those ends. This option was not the preferred option of USTA or the affected local exchange carriers, although that option can deliver public interest benefits. USTA seeks reconsideration of the choice of the Basic Factors Range option, and seeks adoption of the Price Cap Carrier option instead. USTA continues to believe that the Price Cap Carrier option will produce the maximum public interest benefit, and can be implemented without any adverse impacts. If the Commission declines to reconsider its choice, USTA seeks reconsideration and clarification concerning a number of points related to the Basic Factors Range option.

I. THE PRICE CAP CARRIER OPTION SHOULD BE ADOPTED FOR USE IN THE INTERSTATE JURISDICTION IN THIS TIME OF SIGNIFICANT TECHNOLOGICAL AND OTHER CHANGE.

The Commission chose to adopt a modified Basic Factors Range option, and the Report and Order outlines the reasons identified by the Commission for that choice. USTA respectfully disagrees with the analysis, and requests reconsideration of the choice. An analysis of the record and the Report and Order shows that the choice of the Basic Factors Range option over the Price Cap Carrier option is not the best one.

There is no real disagreement by the Commission with much of the position of the exchange carriers and others that the interstate depreciation prescription process is in need of reform and simplification. The Report and Order states that the record and the Commission's own experience dictate that streamlining the depreciation prescription process will benefit exchange carriers and their customers. Report and Order at ¶ 5. The Commission concluded that the depreciation prescription process could become less burdensome, yet still protect consumers. Report and Order at ¶ 18.

The Commission recognized that the Price Cap Carrier option addressed in the record would be both flexible and streamlined. Id. and Report and Order at ¶ 42. However, the Commission declined to choose the Price Cap Carrier option because it concluded that the carriers could make "unreasonable changes in their depreciation rates", and the Commission would not have sufficient information to protect against the potential for

carrier undermining of the sharing part of the price cap plan. Report and Order at ¶ 43. The Commission also concluded that the competitive pressures on the exchange carriers must be greater before the market responsiveness inherent in the Price Cap Carrier option would no longer be denied to them, regardless of the fact of competition today. Report and Order at ¶ 44.

The exchange carriers set out a number of safeguards. The Commission concluded that these safeguards were inadequate for only two stated reasons: (1) because they would not limit the incentive and ability to affect sharing; and (2) because the level of competition is still perceived as inadequate. Report and Order at ¶ 45. The Commission differentiated the Price Cap Carrier option from the Basic Factors Range option by suggesting that the latter will minimize the opportunity for managing earnings through the use of ranges based on prescribed rates, the opportunity for review of such ranges, and the Commission's determination of the reasonableness of factors within those ranges. Report and Order at note 77. The Commission's conclusions should be reconsidered.

A. REGULATORY OVERSIGHT WILL BE AVAILABLE TO THE SAME EXTENT WITH THE PRICE CAP CARRIER OPTION.

The Commission did not conclude there would be any less regulatory oversight with the Price Cap Carrier option. Report and Order at ¶ 47. In fact, the Price Cap Carrier option anticipates that there would be just as much continuing Commission authority and oversight power as would exist with the Basic Factors Range option. The regulatory oversight that the

Commission could bring to bear with respect to the Price Cap Carrier option would remain great. Each of the protections that the Commission anticipates with the Basic Factors Range option will be fully available with the Price Cap Carrier option. Yet, the benefits and market synchronization under the Price Cap Carrier option would be greater.

B. THERE IS NO JUSTIFICATION FOR DISTINCTIONS AMONG CARRIERS BASED ON THE LEVEL OF COMPETITION.

— The issue of competition in the marketplace is not a factor upon which the Price Cap Carrier option should depend. Indeed, if there were no competition, but still today's great technological change, the Commission would nevertheless have to revise its depreciation procedures significantly to promote the timely deployment of regulated network investment. Also, as the Report and Order makes clear, the prescription of depreciation rates is something explicitly reserved to the Commission by § 220 of the Act. This responsibility would exist under any of the NPRM options to serve the public interest regardless of the degree of competition.

The Commission has not undertaken any proceeding to assess the nature of today's interstate access competition. No proceeding has been initiated to evaluate the extent of that competition and to determine the degree to which technological and regulatory changes have established a durable competitive structure. The Commission has itself stated recently that non-exchange carrier interstate access providers are able to siphon off significant percentages of access traffic from local exchange

carriers.¹ The Report and Order acknowledges this. Report and Order at ¶¶ 55-56. The growth of access competition is effectively irreversible. Given the absence of any stated justification for its conclusions about the differences in the market, and also for any related effects, the Commission cannot justify its differing decisions for AT&T, price cap exchange carriers and rate of return exchange carriers in the Report and Order on the basis of competitive pressure. Certainly, this must fail as a central rationale absent the requisite analytic and factual detail. The conclusions in the Report and Order as to competition are without foundation, as the Commission has made no specific record assessment on the issue.

C. A MERE RECITATION OF "EXPERIENCE" IS AN INSUFFICIENT RATIONALE TO DENY THE PRICE CAP CARRIER OPTION.

The Commission cannot state generally that it is relying on "its experience" in such a key area of regulation without explaining in detail exactly what that experience has been, on what its summary conclusion is based, how it is relevant to timely capital recovery, and its relation to the achievement of depreciation accuracy. As the other primary basis for rejecting the Price Cap Carrier option, this rationale, too, must fail.

¹ See Expanded Interconnection with Local Telephone Facilities, CC Docket No. 91-141, Report and Order, 7 FCC Rcd 7372, at 7373 and 7380 (1992) (competitive interstate access providers exist, are growing, handle large amounts of traffic, and are recognized as being able to take a significant amount of the access market from local telephone companies.)

D. THE MARKET AND TECHNOLOGICAL PRESSURES ARE COMPELLING.

As USTA stated in its comments, the Commission's continuing policy of actively promoting competition as its primary goal places increasingly great pressure on established carriers to respond more quickly to customer demand for new services and technology. The rapid rise of competition has spawned ever-more-rapid advances in technology applications, shortening the time for generational changes in telecommunications equipment and software. Correspondingly, the Commission's depreciation procedures must be reviewed and updated to allow full and timely reflection of the impacts of a changing market and changing technology on carrier assets. The Report and Order acknowledges this. Report and Order at ¶¶ 55-56. The Price Cap Carrier option does that most effectively.

E. AVAILABLE SAFEGUARDS ARE RESPONSIVE AND EFFECTIVE.

The Commission disagreed with the safeguards identified by the exchange carriers because of the perceived burden, and because the Commission found that none of the safeguards "individually" minimized risk as effectively as the Basic Factors Range. Report and Order at ¶ 48. As the Commission knows, it is not any safeguard individually that minimizes risk, just as no single player makes a team. The sum of the existing safeguards and incentives is certainly enough to protect the public interest, and indeed, to affirmatively serve it in connection with the Price Cap Carrier option. USTA disagrees with the conclusion in the Report and Order that the Price Cap Carrier

option would become more burdensome with the safeguards identified by the exchange carriers. Report and Order at ¶ 48. The Commission still estimates the burden at 10,000 hours and about \$250,000 per carrier, a figure that greatly understates the actual burden (by a factor as high as ten.) See FCC Request for OMB Review, filed October 22, 1993.

The exchange carriers showed that the objective of ratepayer protection would be fully achieved even without those safeguards, but the exchange carrier-identified safeguards were set out in the record as reasonable means to address even the most farfetched objections to the Price Cap Carrier option. Together, all of the safeguards identified by the exchange carriers constitute extensive and powerful tools to preclude activity that would be contrary to the public interest. The items identified in the record are summarized on Attachment A.

The safeguards identified in Attachment A, and the list of safeguards identified by the Commission in the Report and Order (and attributed only to the Price Cap Carrier option) include many things that the Commission already requires of carriers. They will continue with the Basic Factors Range option as well. Their continuance apparently won't make the burden of compliance greater than the benefit under the existing process, or the Basic Factors Range process, so it is unlikely that these safeguards will have any different impact under the Price Cap Carrier option. The Commission's comparison of "new" safeguards in the

Report and Order at ¶ 48 is misleading, and is flatly inaccurate as a measure of comparative burden.

Nothing in the record provides a basis for any credible conclusion that these safeguards, most of which are already well established and which will remain, will be ineffective. The core safeguard is that the price cap carriers' customers prices won't increase because of the Price Cap Carrier option.

The Price Cap Carrier option represents a logical extension of the best aspects of today's procedures, targeted to deal with price cap carriers' needs in an era of ever-increasing competition and rapidly changing technology. This is fully consistent with the Commission's oft-stated objective to prefer market forces over regulation. The Price Cap Carrier option will promote a more accurate reflection of the changing economic value of carrier assets that are subject to the advances of technology. The Commission should reconsider its choice and adopt the Price Cap Carrier option.

II. THE COMMISSION SHOULD RECONSIDER ASPECTS OF ITS MODIFIED BASIC FACTORS RANGE OPTION IF IT DETERMINES TO CONTINUE TO UTILIZE IT FOR INTERSTATE DEPRECIATION.


A number of issues are presented with the Basic Factors Range option that can affect the amount of actual simplification and the cost reduction. If the Commission declines to reconsider and adopt the Price Cap Carrier option, it should make adjustments in the Basic Factor Range approach.

A. THE COMMISSION SHOULD EXPAND ITS RANGES BEYOND ONE STANDARD DEVIATION.

USTA requests that the Commission reconsider the statement in the Report and Order at ¶¶ 61 and 65 that factor ranges will be set within one standard deviation of currently prescribed basic factors. Existing prescriptions do not reflect current service lives; indeed, two-thirds of them are based on data that are at least two years old. The ranges should be set widely enough to cover all currently-authorized factors and lives, in addition to removing restrictions on moving factors into the ranges.

If the one standard deviation limit is rigidly applied, one-third of the covered carriers will be outside the chosen factors on life, and one-third will be outside the chosen factors on salvage at any given time, based on a normal distribution. USTA's review indicates that only 25-30% of some carriers' accounts can be simplified at any time in the near future, and these accounts are mostly the accounts where carriers' concerns about the impacts of technology are less critical.

Given the requirement of the Report and Order at ¶ 72 that companies must complete detailed studies if either of the relevant parameters is outside of the prescribed range, and the fact that not all accounts initially will be included, many companies will be required to submit detailed studies for most accounts until at least 1997. Ranges should be wider - set to recognize and cover all (or almost all) currently prescribed



B. THE COMMISSION SHOULD ELIMINATE THE BURDEN FOR ALL SMALL ACCOUNTS.

For small accounts, (eg, motor vehicles, furniture and similar accounts that include only a small percentage of total assets) there is very little potential financial impact from broad ranges and streamlined treatment. Yet, the cost of a study for these accounts will be much the same as the cost of a study for the larger accounts. Thus, USTA requests that the Commission set factor ranges for these small accounts that accommodate all carriers' factors and rates, and allow them to be used without separate studies or additional detail.

C. DATA REQUIREMENTS SHOULD BE MODIFIED FOR ACCOUNTS AND FACTORS OUTSIDE THE RANGES.

The Commission should reconsider its apparent requirement that a detailed study be provided if any factor is outside of the range where a factor is presumed reasonable. Report and Order at ¶ 77. A separate study should not be necessary to bring both factors within the accepted ranges. Given the presumption that factors within a range are appropriate for any carrier, each carrier should be able to move into the range using the same documentation, including a brief narrative analysis, as would be required to move within the range. There is no basis in the record for setting more stringent data and proof requirements, nor is there any need.

The requirement for a conventional detailed study will dramatically reduce the potential for real simplification. For

example, a company being represcribed in 1994 will have some accounts which do not fall into the ranges adopted (or for which ranges will not have been established). Thus, a detailed study will continue to be required for each. Even assuming that ranges for these carriers are set expeditiously, a detailed study also will be required at the time of the next represcription in 1997, three years from now, to bring some accounts into the range. Report and Order at ¶ 72. Effectively, simplification will not be available until at least 2000 for these accounts. The Commission should take steps to assure the actual availability of real simplification much sooner - coincident with the establishment of a range, or by 1995 or 1996 at the latest.

D. THE COMMISSION SHOULD CLARIFY REQUIREMENTS RELATED TO CURVE SHAPE DATA.

The use of company specific curve shapes needs to be clarified. The Report and Order states that carriers will have to submit data supporting their curves with their proposed rates for range accounts. Report and Order at ¶ 86. Where no change in a carrier's currently prescribed shape is proposed, no additional data should be required. The provision of curve shape data (that requires extensive mortality analysis) is one of the most burdensome aspects of doing depreciation analyses. It is not needed under the Commission's approach.

There is no record supporting this requirement that mortality analysis must continue for all accounts because of the impact on equal life group (ELG). It is true that the life calculation under either vintage group or ELG can be impacted by

curve shape. However, this is only significant if dramatically different curves are used, such as in the application of a motor vehicle curve to the pole account. In fact, under the Commission staff's 1992 streamlined account procedures, such information is not required.

Analysis provided by USTA to Commission staff in 1992 demonstrated that, within an account, curve shapes typically do not vary sufficiently over time to impact the resulting life by more than a few tenths of a year. Attachment B, using data from two typical accounts of two companies, shows that the carriers' curves have not changed appreciably. Prescriptions for most carrier accounts have changed little over time, and analysis by USTA and by individual carriers shows that there is no curve shape issue.

USTA supports continued use of company specific curve shapes, as the Commission has agreed. The requirement to continue to perform and provide mortality analysis, however, is burdensome, and constitutes a meaningless exercise in precision (without regard to accuracy) under the Basic Factors Range process. If a company's experience indicates a curve shape should be changed, appropriate data could be submitted when the company requests the change. The requirement to perform such analysis under a "simplified" process eliminates a significant part of the simplification.

E. DATA REQUIREMENTS SHOULD BE MODIFIED FOR ACCOUNTS AND FACTORS WITHIN THE RANGES.

USTA is concerned about the account-by-account data requirements required of carriers wherever ranges are being used. Report and Order at ¶ 77. The goal of simplification with respect to use of ranges anticipates that the Commission should target its information requirements for a carrier's accounts that are in the range, and focus on verification of proper use of the ranges. This can be done by collecting a generation arrangement, Table A, and an account parameter summary, each of which is defined by Commission staff procedures and is used today. In light of note 129 of the Report and Order, USTA is concerned that data requirements will grow over time. This would defeat the purpose of the proceeding. Care should be taken to prevent expansion of data requirements over time. USTA requests that the Commission define, to the extent possible, the boundaries of the data expected for accounts within the ranges.

F. THE COMMISSION SHOULD REVISIT ITS CONDITIONS ON FILINGS TO USE THE RANGES AND SHOULD SEEK TO MAKE THE OPTION MORE GENERALLY USEFUL.

USTA applauds the Commission's decision to allow carriers to file annually in some areas. USTA believes that this option should be implemented for all accounts beginning in 1994, and reads the Report and Order to permit all carriers, including those set for triennial reviews in 1995 and 1996, to file for some account changes in 1994. Report and Order at ¶¶ 72 and 77. USTA is concerned, however, that the current restrictions and requirements will prevent effective use of the ranges for most

carriers until their next represcription (or thereafter), and even then, the use of ranges will be available only with difficulty.

An important goal of this proceeding was to make depreciation more relevant to technology. The ranges must be realistic, timely and available. Carriers should be permitted to file more broadly sooner than the Report and Order allows, and with less burden, to bring accounts within the ranges set, even if such a filing is made prior to the carrier's next represcription. Such options should not burden the Commission's resources once the ranges are set.

The Report and Order indicated a Commission objective to make the ranges relevant, and to move promptly to permit carriers to use them. The limits in ¶ 77 of the Report and Order run counter to that intent. Carriers should not have to make specific detailed filings to move factors used in currently prescribed rates into an accepted range.

Principles of regulatory restraint and rule targeting suggest that there should not be new regulatory burdens imposed on carriers when they seek to move accounts into an accepted range. It should not be more difficult to move toward depreciation rates that are presumed to better reflect the marketplace, using factors in a range. The Commission will defeat the purposes of this proceeding if it develops a new and derivative regulatory framework that requires extensive filings and documentation triggered by a carrier's choice to move into a

range. As actual ranges are set (and thereafter) the Commission should resist continuation or expansion of regulation that conditions their use. Carriers need real simplification, not the illusion of simplification.

G. THE FIRST REVIEW OF RANGES SHOULD BE COMPLETED IN 1996.

As is evident now from the Report and Order, the carriers that are set for represcription in 1994 and 1995 will have to live with the results of the Commission's factor range conclusions until at least 1997 or 1998. Id. A range that is too tight and that fails to recognize today's events will have preclusive impacts on the affected exchange carriers for up to five years - a lifetime in today's marketplace.

USTA suggested in its comments that updates of the factor ranges should be undertaken periodically, with input from carriers. USTA suggested that benchmark studies of other companies and industries, individual company plans and Commission filings, and technology assessments could be used. Voluminous data submissions by carriers should not be required. USTA also stated that updates on technology-driven and major accounts should be completed at least every three years. USTA requests that the Commission decide now that the first review of initial factor ranges should be completed in 1996 - for this cycle, a time that would be somewhat earlier than three years after they are set. Report and Order at ¶ 80. The first factor ranges are likely to be the most critical, and if they are not accurate, they must be retargeted as soon as possible.

III. ALL CARRIERS UNDER THE OPTIONAL INCENTIVE REGULATION PLAN SHOULD BE ENTITLED TO UTILIZE THE MOST SIMPLIFIED AND COST EFFECTIVE OPTION ADOPTED BY THE COMMISSION FOR EXCHANGE CARRIERS.

The Commission's Report and Order does not address the place of certain carriers who elect Optional Incentive Regulation (OIR).² These carriers are under an incentive based regulatory plan, comparable to price caps, and they are outside the mechanisms of traditional rate of return/rate base regulation. See Report and Order at ¶ 20.

The Commission should permit carriers who elect OIR to utilize the same option as the price cap carriers. These carriers are in an incentive-based regulatory framework adopted for small and mid-size exchange carriers. Their depreciation, like that of the price cap carriers, is endogenous for ratemaking purposes, and they should have the control over depreciation that status anticipates.

IV. RATE OF RETURN CARRIERS SHOULD BE ABLE TO BENEFIT FROM THE RESULTS OF THIS PROCEEDING.

Rate of return carriers also should have the benefit of the results of this proceeding. In its NPRM, the Commission stated its intention to seek simplification and cost reduction for all carriers. NPRM at ¶ 15. It is primarily technology that drives the life of an asset, not the form of regulation. As USTA

² See Regulatory Reform for Local Exchange Carriers Subject to Rate of Return Regulation, CC Docket No. 92-135, NPRM, 7 FCC Rcd 5023 (1992), Erratum, 7 FCC Rcd 5501 (1992); Report and Order, 8 FCC Rcd 4545 (1993).

indicated in its Comments, all carriers employ similar technology in their networks regardless of how they are regulated. Technology is not sensitive to boundaries among industry segments. Depreciation should differentiate assets, not asset owners.

Rate of return carriers are subject to the same competitive threats as other industry players. The safeguards identified in the Report and Order and herein will be available with few exceptions for the rate of return carriers. With the Price Cap Carrier option, a benchmarking scheme could be developed to allow rate of return carriers' depreciation to be evaluated on a streamlined basis at the election of the carriers.

The Commission should reconsider its conclusions at ¶ 22 of the Report and Order and permit rate of return carriers to benefit from the results of this proceeding at some point soon after the initial factor ranges are set.

V. CONCLUSION.

The example provided by USTA in its comments here remains a powerful and instructive illustration of the dangers of dismissing the urgent need for responsive capital recovery:

A new and strategically important investment may have a useful life of 5 years. While an unregulated communications company may depreciate the same investment in that 5 years, a regulatory agency may set the life for ratemaking purposes for a carrier at 15 years, instead of 5 years. At the end of the 5 year life of the asset, the nonregulated company has had the opportunity to be made whole. Because of regulation, however, the carrier possesses an asset that is also at the end of its useful life, but that is only one-third depreciated. Another 10 years would be needed for the

carrier to recover its investment. A prudent carrier knows it must reinvest. However, when a new asset replaces an asset that has not been fully depreciated, that new asset bears a double depreciation burden - its own and the unrecovered investment in the asset that preceded it. Over time, this is highly prejudicial to the carrier. The incentives within regulation to hold down current expense puts an extra burden on future customers - in both depreciation and in limiting carrier opportunity to adopt new technology.


Adoption of the Price Cap Carrier option will afford carriers and the Commission the best opportunity to reduce administrative costs, and will provide the carriers the additional capital recovery discretion that they need to respond to new technological change. At the same time, there are multiple levels of safeguards in place or available to assure that no ratepayer interests will be compromised. USTA again encourages the Commission to harness for depreciation regulation the same market incentives and pressures that are at work in the price cap ratemaking area.

If the Commission elects to continue with the Basic Factor Range option, the improvements suggested by USTA will allow the Commission to at least partially achieve its goal of simplification and flexibility.

Respectfully submitted,

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ATTACHMENT A

A partial list of protections that exist or were suggested to deal with concerns about possible abuse of depreciation accounting under any option include:

The Commission's Part 32 and Part 64 rules.

Price cap regulation itself, because the link between regulatory depreciation and prices is broken, and it is the market that now determines those prices, not the Commission.¹ Price cap regulation and close scrutiny of the annual tariff filings of both price cap and rate of return carriers act to weed out unnecessary costs.

The carriers' recognition of their future investment needs, and their willingness to take risks like any business to meet those needs.

The subject carriers' recognition that they cannot forego prudent investment decisions.²

New technology that is equally available to all competitors, exchange and interexchange.

The process of capital recovery itself that requires that depreciation rates not allow an investment to be overrecovered. The investment value put in is all that can be depreciated. Use of remaining life depreciation, as proposed for the Price Cap Carrier option, is designed to operate as a self-correcting mechanism.³

¹ See Policies and Rules Concerning Rates for Dominant Carriers, LEC Price Cap Order, 5 FCC Rcd 6786, 6830 (1990) at ¶ 355 ("We rely also on the ability of price cap regulation to supplement and in effect to replicate many of the effects of competition, to encourage price cap LECs to make economic decisions such as they would make in a competitive environment...")

² This is the basis upon which the Commission adopted its price cap orders for the exchange carriers. See Policies and Rules Concerning Rates for Dominant Carriers, LEC Price Cap Order, 5 FCC Rcd 6786 (1990), Order on Reconsideration, 6 FCC Rcd 2637 (1991) (Price Cap Reconsideration Order): "Opportunities presented by incentive regulation for enhancing efficiency in the LEC industry include the opportunity to provide better incentives for innovation." LEC Price Cap Order, 5 FCC Rcd at 6790, ¶ 31.

³ Amendment of Part 31, 83 FCC 2d 267 (1980), recon. 87 FCC 2d 916 (1981).

Commission rules and orders that don't allow overrecovery.⁴

The presence of accounting under generally accepted accounting principles (GAAP) that promotes sound accounting and depreciation practices.⁵

Depreciation and other analysts' reports, that track depreciation experience in this and in other industries, regulated and unregulated, to assess consistency.

Competition, even the imminence of competition, as an effective motivator and disciplinarian.

Risk. Slow capital recovery will put carriers at risk for large future losses due to assets that will have been inadequately depreciated. Too fast capital recovery will have other adverse effects. In either case, the future of the carrier's enterprise will become subject to unnecessary risk.

Financial market reputation and implications. A carrier that signals to the market that its depreciation will fluctuate by choice also will suggest to analysts that the carrier's results are at risk.

The Commission processes that allow it to monitor depreciation practices and to correct for any it finds to be adverse to the public interest.

Continuing oversight over depreciation reserves exists, through the ARMIS process and in the Form M reports. The rate of return carriers have even greater oversight.⁶ Material changes in depreciation reserves or other capital recovery-related activities or facts will be obvious to the Commission staff.

The Commission's significant ancillary powers. The Commission has the authority to request additional information from a carrier when it has concerns about that

⁴ See 47 CFR § 32.2(e) and 32.2000(g) (instructions for plant accounts and depreciation accounting are part of an accounting system that "will provide a stable and consistent foundation for the recording of financial data.")

⁵ The Commission seems not to accept the value of GAAP. See Report and Order at note 79.

⁶ The Common Carrier Bureau requires annual submission by rate of return carriers of Schedule DEP-1, a detailed six-page schedule of depreciation information. That Schedule must be filed each year whether or not that carrier will have a triennial depreciation proceeding in that year. See Order, Cost Support Material Required for Annual Access Tariff Filings of Exchange Carriers, DA 93-192, released February 18, 1993, at ¶ 41 and B.1.